BIZPLAN MERGE 93.1.29 CONTENTS REF

PROPOSAL TO KINOKUNIYA, 1993

[Contents page actually written by MS, 93.1.31]

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? brochure

? diagrams

Bizplan Merge 93.1.29 OO REF

Project Xanadu
3020 Bridgeway #295
Sausalito CA 9465, USA

93 . 1 . 28

Mr. Isao Miura
Kinokuniya Company Limited
VIA DHL EXPRESS

Dear Mr. Miura:

Here are the business plan and proposal you requested for Public-Access Xanadu in Japan. I greatly appreciate your willingness to read it.

Many things show me that the time has come to put my long-term dreams into action. The only questions now are tactical: how, where, with whom.

This plan is not at the level of detail that I might have preferred to submit, but it is a starting place which clearly indicates the directions and approaches I wish to take. The pro forma spreadsheet, similarly, is only a preliminary indication of my strategy and expectations.

As you know, the preparation of detailed business plans is complex and expensive. If we choose to continue these discussions, I hope you will help in the steps necessary to make a more complete plan; and, if seems appropriate, join with me to realize this dream in your very ready land.

Very best wishes,

Theodor Holm Nelson, Director

Encl: PXI Bizplan d___

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Ted's Dream

Information is a great river that flows over us, through our senses, through our minds' ever-running streams of perception and thought.

Technical people like to imagine this as a great stream. Shannon and Weaver gave us equations for expressing information in this great flow, as bits and as bandwidth; but implicit was the idea of a constant river, the bits of information as alike as grains of rice, all of equivalent value. And the philosophy of "databases" seems to continue this notion, of small interchangeable factoids of equal value, equal truth, equal meaning.

But the information we keep is not like that, a flow of grains. The information that we choose to keep, to think about, to work with, is information with *structure*. Structure and a *point of view*. We make sandwiches and sushi out of it.

This structure is the document.

The world of useful information is divided into documents. Connected documents. ...

A universe of documents, representing every point of view ...

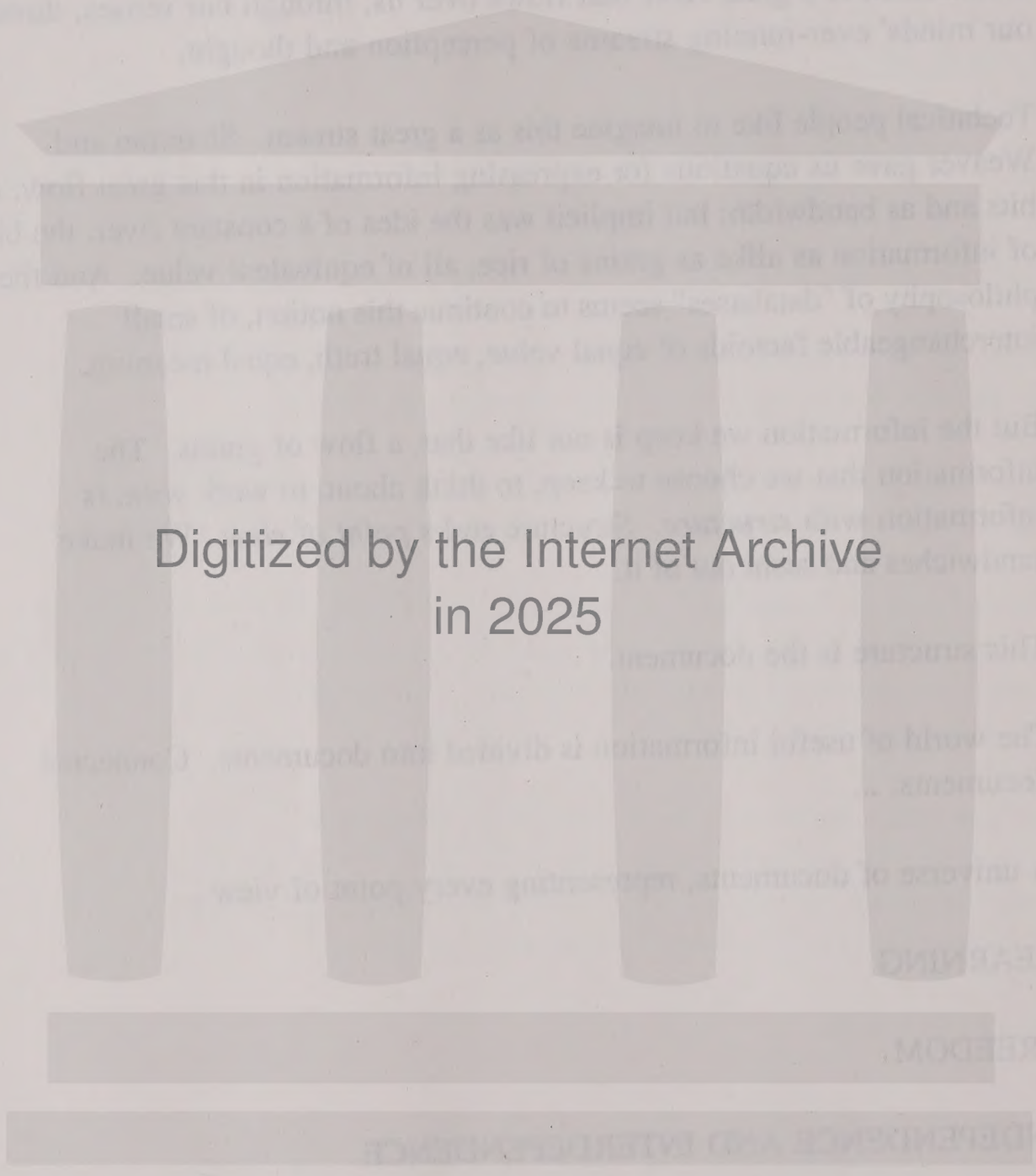
LEARNING

FREEDOM

INDEPENDENCE AND INTERDEPENDENCE

Every point of view

New uses



Digitized by the Internet Archive
in 2025

https://archive.org/details/proposaltokinoku00tedn

Motion picture and video footage can illustrate anything ...

Sound effects clips

From an *idealistic* point of view
we are opening channels of expression in art, in scholarship, in expression, to everyone

From a *pluralistic* point of view
we are going away from the monolithic and consensual expression of the standard publishing chain
and permitting the unexpected re-use of everything in ways not anticipated
to represent points of view that could never have been known before

From a *philosophical* point of view
hypertext and hypermedia publishing allow at last
the exact expression of
the true interconnections that anyone finds and wishes to publish
and new freedoms of expressions for individuals

From a *literary* point of view
we are allowing the packaging and packaging of new forms of expression by whoever thinks them
with no obstacle to the casual re-use of whatever is already there

From a *commercial* point of view
we are creating a new retail market for the sale of information comparable to the electronic ticket agency
but with the fine granularity of the candy-vending machine
"A vending machine for all the world's documents."

From a *publishing* point of view,
we are simplifying the process of publication,
lowering the cost of publication
and shortening the channel of distribution

From a show-business point of view
we are adding production values to everything,
allowing everything to be repackaged by everyone
with added values

From a legal point of view, we are inventing an area that has never been seen before
but which many lawyers recognize as a basic solution to the rights problem
though it will undoubtedly introduce other problems

A LITERARY MODEL

The impression many people have is that Xanadu is a network to contain "all knowledge" or "all information."
This is not our point of view.
myth of granular generic "information"-- doesn't exist
POINTS OF VIEW
DOCUMENTS or "works"
a document is an information package prepared by someone, with a point of view
document in this sense includes paintings, recordings, movies
has point of view
LITERATURE AS CONNECTED DOCUMENTS
literature--

- is stable
- stays put
- is what remains of human thought
- is much of what remains of events

is motivated
author
publisher
reader
DESTINY OF LITERATURE: the obvious development of--
the obvious development of
literature,
text (into fully generalized open hypertext),
media (into fully generalized open hypermedia),
publishing,
carrying detailed connection to its fullest form.

AN IDEA TOO SIMPLE

One idea with ramifications in every direction
A way of connecting, storing, serving information
A new connected electronic literature
A business system for this electronic literature
A radical proposal for a new design of civilization

THE BASIC XANADU CONCEPT

MAINTAINING CONNECTIONS TO REPRESENT TRUE AND EXACT STRUCTURE.
CONNEX BETWEEN CHANGING & EVOLVING OBJECTS
OWNED PACKAGES (documents or works)

A STRUCTURE FOR ANYTHING

Main connections map all structures
linkage
any connections between objects
transclusion

logical inclusion of part of something else, without storing it

Open Hypertext and Open Hypermedia Publishing

anyone can publish comments, connections, annotations, disagreements, anthologies, reworkings

Open hypermedia publishing
separately owned but connectable documents
unrestricted linkage
unrestricted transclusion
quotations and other material b**ought from original publication at time of request**
automatic royalty to the publisher
automatic credit to the author

AN IDEA TOO SIMPLE
One idea with ramifications in every direction
A way of connecting, storing, serving information
A new connected electronic literature
A business system for this electronic literature
A radical proposal for a new design of civilization

GENERALIZES LITERATURE
Freedom of the Press
Conventional roles transposed

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INTRODUCTION

The time is now for Xanadu publishing at last to begin. The technology is finally at hand; the interest in all related subjects is high; royalty publishing on networks has begun.

There is a very good reason for beginning in Japan at the same time as California. The sophistication and eagerness of the Japanese public and information industries, and technology

Our strategic partners and Japanese investors will have the opportunity to reap the benefits of this remarkable idea,
possible very high profits
and find synergy with their other work

It is probable that it will move our partners and investors into the forefront of the publishing industry of the 21st Century.

We believe the market is unlimited, or at least as unlimited as the demand for electricity, water, telephone and television

We have projected here only the most conservative estimates of possible profit, and these run very high...

PROJECT XANADU JAPAN, Inc.

(tentative name)

XANADU AND JAPAN

ADVANTAGE OF A CLOSE WORKING TIE WITH JAPAN

Unique position of Japan in the world
Unique position of Xanadu ideal in the world

ADVANTAGES OF JAPAN FOR XANADU NETWORKING

Very high literacy
Very high computer literacy
Technological awareness
Strong and varied interests of the public
Computer awareness of public
Computer abilities of industry
Good electronic network facilities

ADVANTAGES FOR JAPANESE PARTNERS

Early involvement and strong market share

CONSEQUENCES OF MAKING JAPAN COUNTRY 2

We would spend the next several years in close working relationship with the Japanese subsidiary

PROJECT XANADU JAPAN, Inc. (tentative name)

The company does not exist yet.

TWO LEVELS OF THE SAME BUSINESS

Project Xanadu International licenses Project Xanadu Japan
Project Xanadu Japan licenses vendors directly
Both companies must:

Promote the service to the public
Promote the service to publishers
Promote involvement to software developers
Work on strategic partnerships throughout business community

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HISTORY AND PRESENT SITUATION

The Xanadu Project
is now thirty-two years old, and still alive and well.
The name and the idea, or part of the idea, are well-known and understood around the world,

Unfortunately, because of the radical design and careful work, it has taken too long

For some years we have been involved (through various business arrangements) in software development to produce ideal software for these purposes. Because of delays in completing this ideal software, we have negotiated a new arrangement whereby PXI is now free to license early services using a simpler model that can be constructed using simpler databases. Licensees participating with this simpler model will later be encouraged or required to upgrade their services to the better software when it becomes ready.

Now, in 1993, a new agreement has been reached. Nelson no longer has exclusive rights to utilize XOC software for electronic publishing, when and if the software is completed; but he is no longer required to wait for the XOC software. And the name "Xanadu" is being reclaimed by Nelson, and will no longer be the name of the XOC software.

We are ready to begin licensing Xanadu publishing and private storage at a new and simplified level.

Because of the renegotiation of our arrangements we are now redefining the publishing system for implementation by means of conventional databases, unconventionally used, at a lower level of performance than that which we finally intend. (Specifically, the documents may not be dynamically edited, and our multigroup security is not implemented.)

This may allow us to begin operation of the service much sooner than we recently believed.

Porject Xanadu has no patents and may or may not come to own copyrighted software. We do own the trademark "Xanadu" and the Flaming-X symbol, which we intend to have worldwide recognition.

Responses from around the world to our announced system has been impressive, with hundreds of lettes and phone calls indicating that the idea is understood and recognized.

---------- **HO**

d1/d2

In 1960, Project Xanadu began with Ted Nelson's vision of a world publishing repository with automatic royalty and transclusion-- though the terms "Project Xanadu," "world publishing repository" and "transclusion"did not exist.

In 1967 Nelson adopted the business name "Project Xanadu." Until 1979 Nelson worked substantially alone on this idea, with technical assistance from various individuals.

In 1982, Xanadu Operating Company (XOC) was formed to implement special software, both for the publishing repository and other private functions with private data. PAX has been Nelson's business name for the intended publishing company and PAX has had exclusive rights to use this software for electronic publishing, until now.

XOC has so far not delivered the intended software.

and people seem to be sharply divided on their opinions about it.
This is made more difficult by the fact that most people do not know what it is.

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OBJECTIVES

PHILOSOPHY AND INTENTION

Our philosophy: "The manifest destiny of literature."

Amass medium like the telephone

We will act **in accordance with our philosophy,**
TO MAKE THIS THE FUNDAMENTAL NEW BASIS OF ELECTRONIC PUBLISHING,
with intention of making it **the basis of a new world.**

SOFTWARE DEVELOPMENT

Press development of multi-data standards

Objectives

Near term: We intend to build and supervise a license base of cooperating service vendors, using existing software and available networking facilities. We will be marketing our publishing and communication facilities first within the computer-sophoisticate community and in selected niche markets and on a selected basis to the general public.

Long term: We intend to consolidate a broad-based licensing program worldwide, supervising the services throughout to maintain standards.

Our objective, at this time, is to propel the company into a prominent market position. We feel that within XXX years (Company) will be in a suitable

condition for further expansion, an initial public offering or a profitable acquisition.

We expect that in five years the company will become profitable.

OBJECTIVES

To become a principal player in broad-based electronic publishing to the general public.

To become a principal information channel of the world.
World-wide network
Unique publishing service world-wide

We intend to bring electronic publishing and communication services to the general population in the same way that personal computers brought computing power to the general population.

THE XANADU EXCHANGE

EXEMPLARY XANADU EXCHANGE (no visitors, just dial-in)
Find a licensee

(For further discussion of our demonstration center plans, see appendix, "SilverStand Shibuya.")

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DESCRIPTION OF THE SERVICE

Background

Throughout the computer field there are problems of vergion management and version merge, document build merge-- problems of document structure that go beyond simple linear documents, and for which no tolerable software exists. Another problem area is the keeping of data-- backup, archiving, the indexing of archives, and the issue of "bit rot"-- the difficulty of interpreting data that has been stored in earlier software environments.

Throughout the computer field there is uncertainty as to how copyrighted materials may be transferred.

There is considerable question throughout the entertainment/multimedia and computer industry as to how materials may best be delivered and paid for by users. The Xanadu approach combines pluralistic publication, automatic royalty and transclusion-- allowing all participating users to quote each others' materials freely without prior arrangement.

Most publishers and information providers are looking for such methods, but are unaware of the possibilities of transclusion.

In the computer networking world, many documents are shared but there is much confusion about who owns them, and much material is withheld because the networks are outside the normal royalty publishing system.

Concept

BROAD-BASED UTILITY SERVICE

A UNIQUE SERVICE
storage and delivery of bytes,
connected data
in a mix of all formats

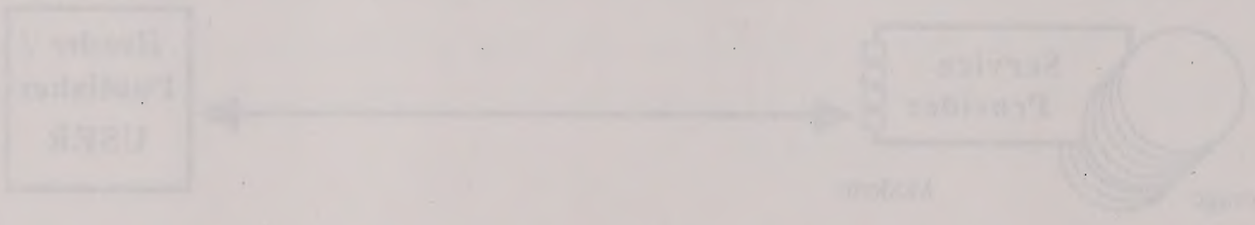
users send for fragments of documents--
with automatic royalty on published materials

storage and delivery of bytes
ONE BASIC SERVICE *FOR ALL*
Same to publisher and consumer alike

One Standard Service:
ALL CUSTOMERS EQUAL, ANYONE MAY PUBLISH

Licensed service providers, using Xanadu software, business methods and trademarks, will provide on-line storage and delivery of published electronic documents in all digital media, as well as private materials, privately stored.

The service our licensees will be conducting will be the digital storage and delivery of text, graphics, audio, video and other presentational media and computer data. The storage will be in unique new formats allowing hyperlinkage within works and between works, visible at both ends of the link.



This storage will be provided to individuals and companies in two ways. *Private* data will be stored under password and only made visible and available to holders of the password. *Published* storage and delivery will mean that anyone in the world may send for portions of the data, with royalty on each byte paid automatically by the receiver to the publisher of the data.

SEMI-PUBLISHING

PUBLIC-ACCESS ARCHIVE

PRIVATE USE

backup for computer data
private storage of data
private mail and message service with linkage and transclusion to outside sources

ELECTRONIC PUBLISHING

publisher provides the bytes
purchaser buys them

Ease of use

User connects with ID, immediately buys fragments

User gets exactly what is asked for

Nothing is bought which is not requested

A vending machine for documents

No "opening screen"

Company mission statement

PAX: licensing organization providing structure for World Publishing Repository: a method, a trademark and a carefully-designed system of participation. Server software, accounting software (both intended to evolve), giz methods, trademarks, advertising, promotion

PAX JAPAN: licensing services for Japan

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BUSINESS DESCRIPTION

Section on opening franchises-- use Japan as model

Description of business (2 pages?--MJ_)

Operation of business interesting and important

GENERAL PLAN OF BUSINESS ORGANIZATION

A FRANCHISED OPERATION

Permits rapid growth

distributed financing

Prevents information monopoly

Many small vendors, no pressure to suppress viewpoints

cooperating vendors in a network

world-wide licensing of vendors

vendors all to be under license

regional licensing organizations

no exclusive vendors per region

vendors free to seek own marketing approaches

Licensed vendors

nobody gets an exclusive

Existing companies branching out to provide Xanadu service

existing services may participate

existing organizations may participate

time-sharing organizations

communication companies

New companies set up as franchisees

new dial-in service providers, large and small

unique Xanadu Silverstands
under McDonald's-like rules

Vendor requirements and benefits

Vendors get

Software

Vendors must use approved software which we supply
Accounting software to track publishing and sales

Business method

Vendors must use follow business methods, in which we train them (like McDonald's)

Trademark use

Promotional value

Referral business

backup storage to each other)

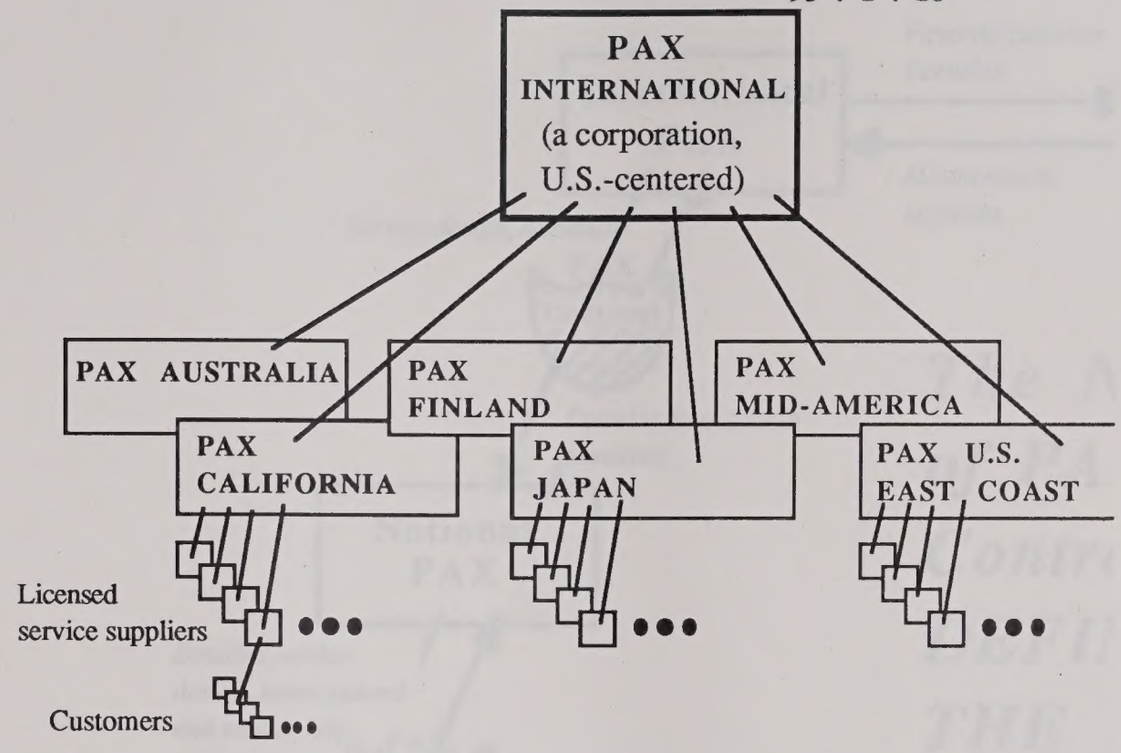
Vendors free to market as they choose using our system

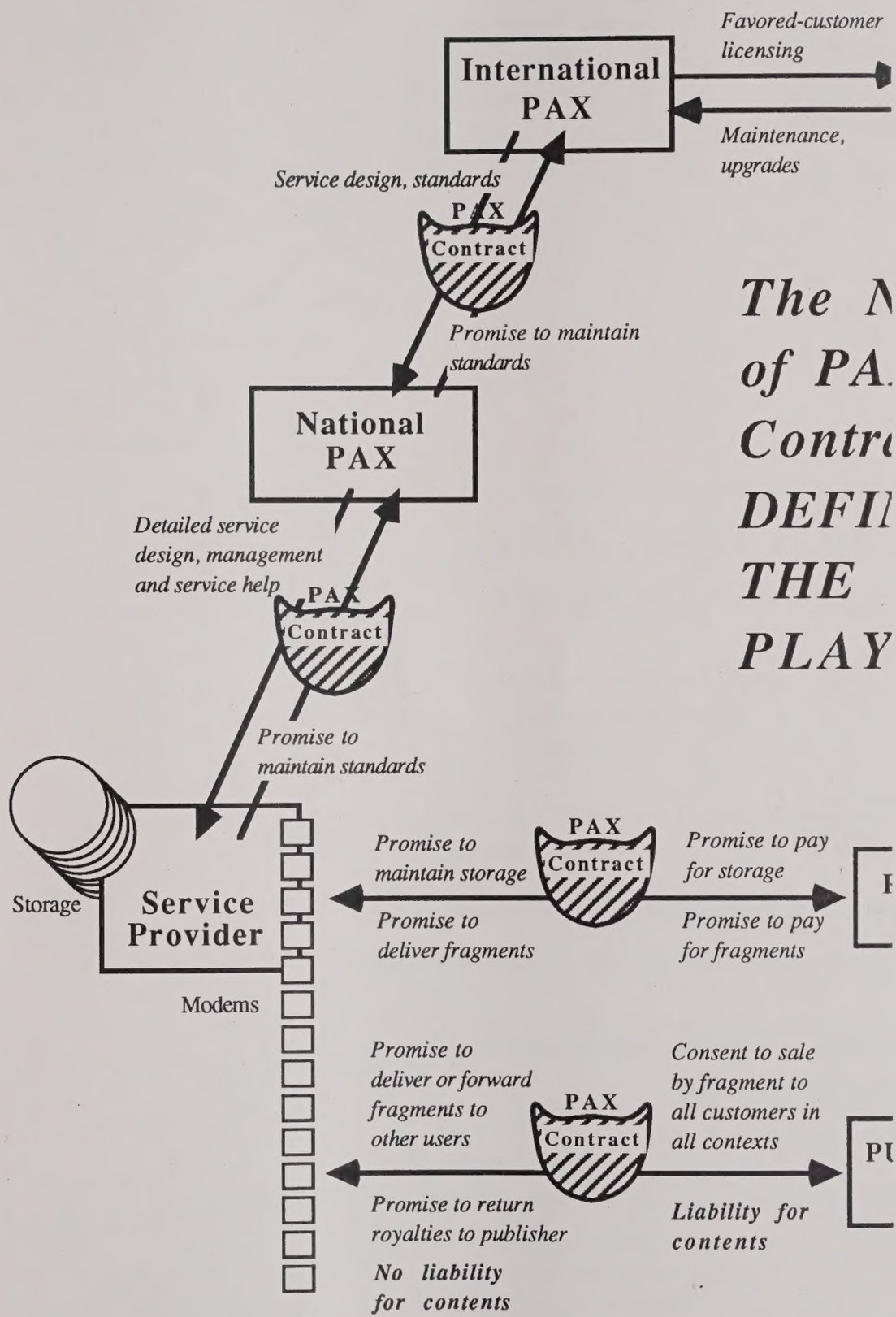
unrestricted geographical areas and outreach
particular market sectors
differential marketing
differential pricing

Vendors may connect to any telecommunications

A NETWORK OF PARTICIPANTS AND AGREEMENTS

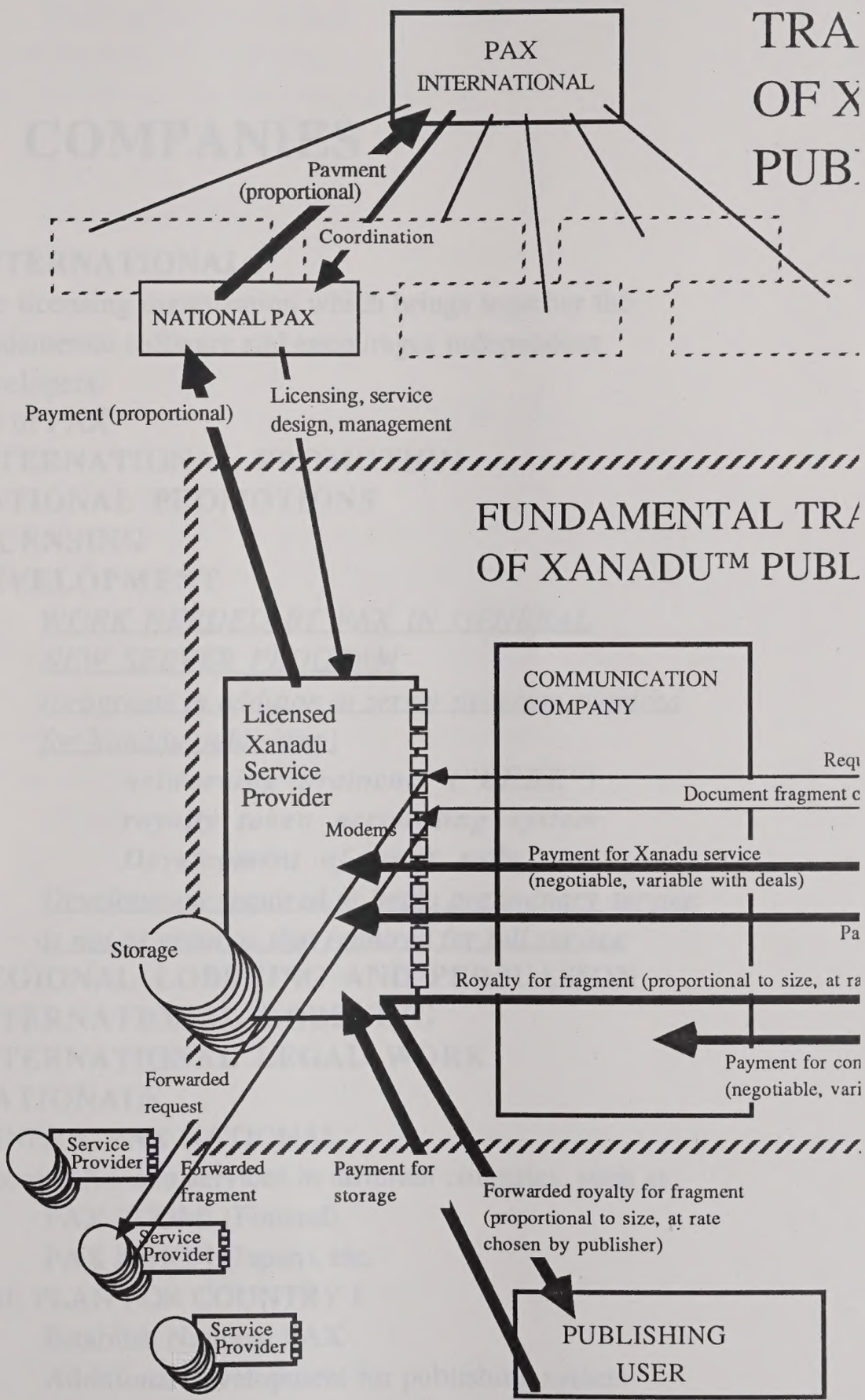
A system of contracts
Puts electronic network publishing on a legal basis
Establishes the players
Maintains, transposes STRUCTURE OF YESTERDAY'S PUBLISHING

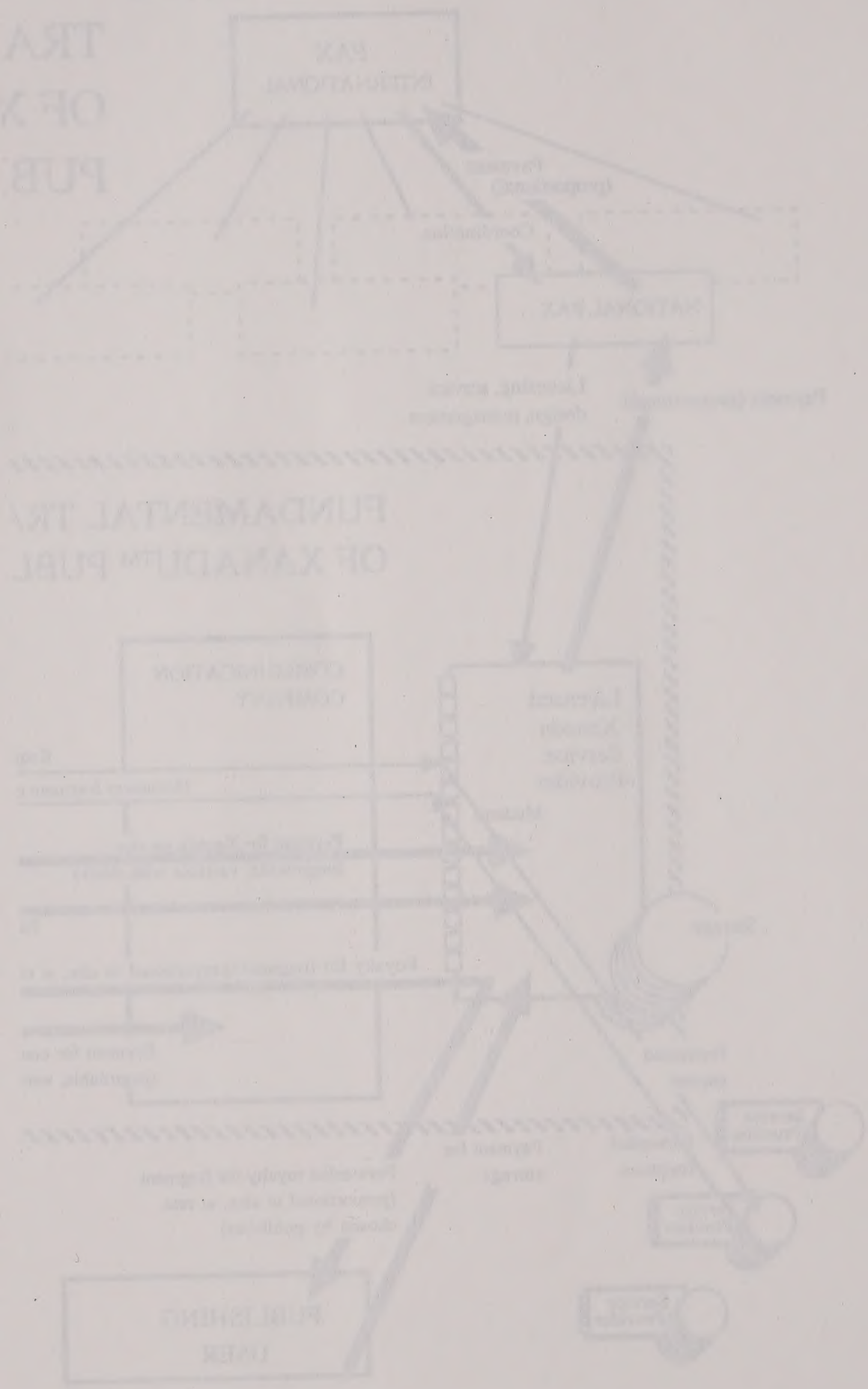

PAX
INTERNATIONAL
(a corporation,
U.S.-centered)
PAX AUSTRALIA
PAX
FINLAND
PAX
MID-AMERICA
PAX
CALIFORNIA
PAX
JAPAN
PAX U.S.
EAST COAST
Licensed
service suppliers
Customers



THE TRANSACTION WEB

TRA
OF X
PUB


PAX
INTERNATIONAL
Pavment
(proportional)
Coordination
NATIONAL PAX
Payment (proportional)
Licensing, service
design, management
FUNDAMENTAL TRA
OF XANADU™ PUBL
COMMUNICATION
COMPANY
Licensed
Xanadu
Service
Provider
Modems
Document fragment c
Payment for Xanadu service
(negotiable, variable with deals)
Storage
Royalty for fragment (proportional to size, at ra
Payment for con
(negotiable, vari
Forwarded
request
Service
Provider
Forwarded
fragment
Payment for
storage
Forwarded royalty for fragment
(proportional to size, at rate
chosen by publisher)
Service
Provider
Service
Provider
PUBLISHING
USER



THE COMPANIES

PAX INTERNATIONAL

The licensing organization which brings together the fundamental software and encourages independent developers.

Functions of PAX

INTERNATIONAL PROMOTION
NATIONAL PROMOTIONS
LICENSING
DEVELOPMENT

WORK NEEDED BY PAX IN GENERAL
NEW SERVER PROGRAM
(programs in addition to server program required for Xanadu publishing)

networking protocols ("BEBE")
royalty token accounting system
Development of front ends

Development required to begin preliminary service is not as great as that required for full service

REGIONAL LOBBYING AND PERSUASION
INTERNATIONAL LOBBYING
INTERNATIONAL LEGAL WORK

PAX NATIONALS

GENERIC PAX NATIONAL

Licenses Xanadu services in different countries, such as
PAX SUOMI (Finland)
PAX NIHON (Japan), etc.

THE PLAN FOR COUNTRY I
Establish National PAX
Additional development for publishing system

Building of Introductory Silverstand

IF COUNTRY I IS JAPAN--

Investment by Japanese partners in
PAX International
Pax Nihon
Silverstand Shibuya

Communication service providers

a unified worldwide system

designed for large-scale international operation
designed for great expansion
designed for consistency
designed for simplest business relationship
designed for reduced business complication

high-speed interconnection between vendors
each document must be stored with at least 3 vendors

one central international licensing organization

Project Xanadu International, Inc. (tentative name)

Organization

"Project Xanadu" is a presently registered in Marin County, California as a sole proprietorship.
We intend to incorporate when we do business actively.

Ownership

Nelson is principal owner
Nelson's obligations to others represent under 10% of equity

Regional licensing organizations

Project Xanadu Japan
Project Xanadu Finland
etc.

CLASSES OF FRANCHISEE

Dial-in service vendor

The principal type

public-access stands as demonstration ceners

much higher cost than dial-in

rental of screens and desks

instructions for beginning users

counsulting for advanced users

sale of software

immediately understandable environment ("high concept")

"Star Trek McDonald's"

Builds an international image (like McDonald's)

Staffed by clever, warm young people who are good at explaining

International circulating staff for cultural diversity

SIMPLE BUSINESS RELATIONS

We offer only one set of deals

customer contracts with vendor only

publisher makes contract with vendor only

only one contract for the act of publication

author contracts separately with publisher (if author is not also the publisher)

simple payment arrangements

customer pays vendor

vendor pays percent of revenue to Regional Xanadu

Regional Xanadu pays percent of revenue to Xanadu International

XOC

Development Company with uncertain relations

XOC LONG-TERM PLAN

First server

Second server with better BEBE

Continued improvement

Additional functions

Scanning and indexing

Additional SECURE FUNCTIONS IN SERVER

XOC AND PAX

XOC had been waiting for PAX software

software is now further delayed pending financing

new negotiations have been concluded

PAX is free to change involvement from XOC

other software is possible for similar publishing system

software developers

viewing programs

big ("vertical") applications

little applications ("tools")

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MARKET ANALYSIS

6A. Customers

6b. Competition

6c. Risk

MARKET ANALYSIS

We need harder market data, which we intend to get later
but what we expect is so different and so vast,
it defines a new system of markets entirely beyond anything now available, accessible or unerstood

Projections of public need for network service and for interactive multimedia tend to be vast, but based entirely on conjecture. We hold an extreme view, believing that public demand for interactive Xanadu services will easily be able to saturate today's communication system within a few years.

6A. CUSTOMERS

Nelson's book *Literary Machines* has excited worldwide interest and support

Target market:

Nelson has always believed that the on-line hypertext and hypermedia repository represents the manifest destiny of literature, and that within fifty years this will be the principal form of publishing in the world. It is our intention to bring this about.

We expect ur initial market to be the enthusiastic worldwide computer community that has responded to Nelson's writings and speeches.

In addition to scientists and technicians, scholars in every field should be attracted to its use, and strong new markets will emerge based around both rapid

communication of documents (small press publishing) and niche markets for intellectual property such as independent photographers selling their work.

The presence of clear, simple, accessible services of this type will draw in the general public by fast contagion.

Professional publishing companies may use this as a low-cost channel of distribution of every digital medium and every form of data.

Individual publishers may publish their opinions, artworks, commentaries, research, designs, proposals, complaints, all linked to related materials already in the system.

The mail service will provide for the easy transfer of hypermedia documents with linkage and transclusion.

The storage service will provide an easily accessible method for the backup and private transmission of data.

Corporations may use this as a communication channel between individuals and facilities, independent of complex arrangements and installations.

Owners of data may make it available for re-use or for analysis: for example, the vast data archives of the NASA space probes, which no one at NASA has time to analyze and for which there exists no practical way to make it available to either scientists or the general public.

We expect that on-line conferencing with "subjects of conversation" will evolve, but without borders and without editorial dictatorships which create artificial boundaries to a discussion based on the views of an editor.

New forms of on-line journal will exist as collections gathered by transclusion, given special status by the publishers of the journal.

THE CUSTOMERS

GENERIC READERS
PUBLISHERS
Publishing Organizations
Publishing Individuals
DEVELOPERS
OTHER USERS
Critics
Individuals networking and conferencing

CUSTOMERS: PUBLISHERS
CUSTOMERS: USERS
Note: INDEPENDENT PHOTOGRAPHERS
Note: SMALL FILM-MAKING COMPANIES
ECONOMICS OF PAX JAPAN

CUSTOMERS/DEMOGRAPHICS

typical customer we assume to be both publisher and purchaser and publisher (writing public opinions and messages, as is so popular on networks today)

Seeking to make it a *mass medium like the telephone*

Demographics are a guess.

Users like today:
Computer users
Corporate market (some)
Scholars
The young and fashionable

TARGET MARKETS

DEMOGRAPHICS

Innovatives, "Sneaker Tribe" in Japan
Occupations exchanging graphics, audio
Hobbyists
Scholars

THE LICENSEES

SERVICE PROVIDERS: EXCHANGES (dial-in only)
Not as glamorous as the stands
SERVICE PROVIDERS: SILVERSTANDS

6B. COMPETITION

What are their strong market positions...

How PAX will make inroads...

More detailed analysis of comparable...

Networks with royalty (new)
Do not have broadened view of publishing as an individual occupation
Do not offer fragmentary sale
Do not offer transclusion
Do not offer linkage
Do not offer open hypermedia publishing

Time-sharing vendors

Bulletin Boards

Computer Conferencing
Prodigy

CompuServe
The Well
Do not offer royalty
Do not offer transclusion

Other Computer Media
CD-ROM
No transclusion
No per-use royalty
High first cost
Fixed boundaries

Computer Mail and Literary/Commnication Systems
Internet Mail
Netnews
Conferencing

Many systems which may be called "similar" exist:

Shared text systems: computer bulletin boards, under the control of 'sysops,' teleconferencing under the control of 'conference leaders,' allow electronic controversy on various subjects, but do not allow particpants to quote or link to outside materials and cannot themselves be quoted in other contexts. They also offer no royalty.

Electronic mail provides fast text communication to recipients, sometimes many recipients of the same material, but allows no variety of data type, linkage to or quotation from previous materials. It also cannot be easily quoted by other users.

Scannable text systems.

A number of systems, like Dialog and Lexis, offer bodies of text which may be easily scanned and searched. They cannot, however, be linked to or otherwise made a part of a personal base.

Electronic publishing systems, with royalty:

There are now numerous examples of royalty publishing per use, in the computer field, conspicuously several typeface companies are now selling CD-ROMs in which the typeface exists in encrypted form, and the user must pay over the telephone to obtain the passwords to unlock these typefaces.

There is even one company which sells audio samples for digital synthesizers via computer network, downloading the material after it has been paid for.

(New WSJ, Compuserve. No linkage, no TCL, no fragment purchase, no open hypermedia)

Two things are unique about our system: open hypermedia publishing and transclusion with royalty.

We are unaware of any competing system under development anywhere although the problems we solve are brought up wherever intellectual property is discussed.

COMPETITION TO XANADU PUBLISHING

THE COMPETITION: "ELECTRONIC" PUBLISHING OF PHYSICAL OBJECTS

CD-ROM, CD-I, Photo CD
Videodisc
all share limited use, limited interconnectivity

THE COM)PETITION: PHYSICAL PACKAGES

CD-ROM
Videodisc

THE COMPETITION: NETWORKS

VARIOUS TYPES

Electronic Mail
Bulletin Boards
On-Line Conferences
"The Net"--
Usenet
The Well
Apple-Link
Prodigy
Scanned on-line document systems (Lexis, Nexus, Dialog)

WHY THESE AREN'T VERY GOOD

They have no long-term accessibility
The interfaces are difficult
Addressing is not stable
Linkage is not easy
No graphics
No animations
No sound
No persistence
Some linkage but awkward and small address space
Complex linkage impossible
Overview impossible
Graphics and video not available
Arbitrary transclusion not available
No easy view of a whole conversation
Restricted by leadership to leader's view of the subject

THE COMPETITION: SAME SERVER

Probably the worst competition will be from others using the XOC server differently

6C. MARKET RESEARCH

MARKETING PLAN

Difficult to define the market

Competes with almost every kind of information

INTENDED MARKET BROAD-BASED, HORIZONTAL, UNIVERSAL

Only Prodigy attempts this

Specific market research not going to be useful

Market Research
Dentsu will do for Japan

6D. RISK

(brief statement)

BIZPLAN MERGE 93.1.29 7 REF

7. MARKET STRATEGY

7a. Pricing/Profitability

7b. Selling Tactics

7c. Distribution

7d. Advertising, Promotion and Public Relations

7e. Business Relationships

7. Marketing Strategy

Marketing

Our approach will be evangelistic, to companies and to the sophisticated public, but with background promotion to the general public as well.

Market awareness
Market share

Niche markets for content vendors
Seeking both editorial viewing and possible transclusion
Boilerplate
Photography
Audio
Video stock footage
Art

Academia
Budgetary funding unlikely, but casual adoption certain

Journals

Specialty-interest publications

"Little magazines," alternative press

Unique Strategy

Our strategy is based upon our well-defined set of contracts and our unique trademark. Even if the software we've worked on never works, we expect to be still in an international position similar to McDonald's, since we too will be offering a uniform service with strong trademark recognition.

There are three fundamental thrusts to our marketing strategy:

1. Marketing our service to potential franchisees.

2. Marketing Xanadu service to users who are principally providers of information, such as conventional publishers;

3. Marketing the services to users who are themselves readers, and may also be publishers.

4. Marketing to software vendors the incentives for developing Xanadu-compliant software.

Our principal form of marketing to potential licensees will be person-to-person contact.

Our principal form of marketing to publishers will be through personal contact and at trade shows.

We expect the principal thrust for regular users to be via word of mouth, which has proven to have immense power in the development of Xanadu awareness worldwide. In addition, we will encourage the licensing of demonstration centers, which we call "Silverstands," where users may come in and learn the operation of the system in a colorful and friendly atmosphere before purchasing the necessary software to start an account.

We will develop niche distribution markets, such as independent photographers, sound effects and music samples, and stock video footage libraries, through trade shows and personal contact.

7a. Pricing / Profitability

FINANCIAL PROJECTIONS FOR PXJ

OPTIMISTIC FINANCIAL ASSUMPTIONS

100,000 users after 5 years
$1.10/user/day ($400/year per user)
2000 bytes/day/user (10 cents?)
1/2 hr/day/user ($1?)
Revenue to vendors $200,000,000/year
Hourly charges $10,000/day => 36,500,000/year
Delivery charges $10,000/day => 3,650,000/year
20% of 40,000,000/year => 16 million/year

LESS 20% TO PAX INTNL.

7B. SELLING TACTICS

Selling Tactics
Word-of-mouth

FORMS OF PAYMENT

These are payments from customer to vendor.
Vendor pays proportion to regional Xanadu
Regional Xanadu pays proportion to international Xanadu.
Numerous billable service segments
simple schedule of fees

Costs to publisher
Registration fee for publishing
Publishing storage fee
(three years, three locations paid up front)
Usage costs
Hourly connect costs
Delivery charges (probably principal revenue)
Communication costs

may be charged by vendor, or by communication company)

Royalties

Passed through directly to publisher

Search costs (link and transclusion search)

Still being researched (may be absorbed)

Search cost (text scan)

Still being researched (may be absorbed)

LICENSING FEES

Startup and annual fee from vendor to regional Xanadu

Startup and annual fee from regional Xanadu to international Xanadu

COLLECTION PROBLEMS

PXI will supply accounting software, with upgrades (mandatory)

Similarity to movie business: difficulties of getting accounting and payment

Possible requirement of on-site inspection of vendor facility

7C. DISTRIBUTION

telephone

ISDN

SilverStands

other licensed outlets

7D. Advertising, Promotion and Public Relations

Advertising/Promotion/PR

Ted plans to continue speaking throughout the world, spreading the world

7E. BUSINESS RELATIONSHIPS

We expect our strategic partner to handle introductions and relationships with communications companies, publishing companies, printing houses (excellent supplier), other suppliers and vendors

NELSON TO BE DIRECTLY INVOLVED

They put up the money
I do the design and the training
I WORK IN THE STORE, as a model for owner-operators
(Note excellent public relations from my working in the store)

Operations

Persuasion of cooperative communication carriers
Persuasion of cooperative software developers
Persuasion of cooperative equpment manufacturers
Research into best methods, other aspects optimized for Japan
Researching best network methods
Licensing service providers
Licensing Silverstands
Persuasion of publishers in early markets

BIZPLAN MERGE 93.1.29 REF

8. FINANCIAL PROJECTIONS

8a. 5-Year Income

8b. Cash Flow

8c. Startup Requirements

8d. Use of Funding Proceeds

Financial Projections

Finance (general)

Project Xanadu will be financed principally by intial licensing payments and then by royalties on the services.

Xanadu Japan, like the other regional Xanadu licensing services, will be initially financed by investors. Royalties for services provided should be substantial within three years.

To include: Spreadsheets:
1. estimated P&L for Xanadu service provider
2. estimaged P&L for SilverStand
3. estimated P&L for PAX Japan for three years.

[] See Income Statement, Budget, Cashflow, Balance Sheet (w/ratios), etc. attached.

PROPOSAL FOR TIERED INVESTMENT BY KCL
Investment of Japanese partners in Pax International
Investment of Japanese partners in Pax Nihon
Investment of Japanese partners in Demonstration Facility

Within five years we expect to be a major electronic publishing channel and our investors will be able to realize substantial returns on initial investments through appreciation of the value of their shares. We expect to offer dividends on the sixth year if not earlier.

FINANCIAL PROJECTIONS FOR PXI

OPTIMISTIC FINANCIAL ASSUMPTIONS
100,000 users after 4 years

$4/day per user to vendors (not including royalties, which pass through)
Note that there is no exact basis to these figures; I am assuming a mix of pricing.

8C. Startup Requirements

1. **First refusal payment.**
100,000

2. **Initial payment for business plan and introductory visits**
170,000

3. **Closing the deal: payment for Japanese rights**
500,000.

4. **Capitalization of PAX JAPAN, in stages, by investors**
5,000,000

STARTUP COSTS, first year

Office

Employees (head count starting at 3)

Travel & Consulting by Nelson

Business meetings

Publicity

When the first version (Xanadu Light) is ready, then operations will begin.

Heavier capital invusion will be needed.

Then we'll pay
Marketing and advertising

Salaries
Facilities
Capital Equipment
Research and Development
Operational Expenses
Funding

To accomplish this goal we are developing a comprehensive plan to intensify and accelerate our marketing and sales activities, software development, strategic partnership, distribution and customer services.

To implement our plans we require an investment of $XXX for the following purposes.

To implement a plan in Japan we require an investment of $XXX for the following purposes:

1. Initial payment to Xanadu for regional franchise rights, setting up "Xanadu Japan."

2. Management, support staff and offices in Japan.

3. Support and expenses to work closely with Project Xanadu, for a 3-year period to get the service smoothly operaitonal on a broad scale.

4. Technical consultants from both US and Japan.

5. Evangelizing within the Japanese community for communication and other participant companies.

6. Marketing the Xanadu service opportunity to prospective licensees.

7. Marketing of the Xanadu service to prospective users--

computer uses,
scholars and scientists,
niche distribution markets
and the general public.

8. Marketing of the service to prospective publishers.

9. Localize front-end software for use in Japan.

Project Xanadu will be doing the following:

1. Developing the particular forms of database necessary for this application.

2. Developing front-end user software and/or promoting its development by others.

3. Developing a communication protocol for this application.

BIZPLAN MEMOS 93.1.29 9 RCP

SUMMARY AND PROPOSAL

Asking now

$100,000 to start up,
do full business plan

250,000 to buy rights
fee for ten years renewable under specific conditions

Thereafer, consulting fees $150K a year

$5 million buys substantial percentage of PAX Japan

AND SO NOW WE ARE ASKING...

100,000 for full business plan and six-month option thereafter

WE EXPECT TO ASK

Five million for half-interest in Project Xanadu Japan

Conclusion

Project Xanadu International has a unique worldwide position. We have promoted one idea, and one planned service, relentlessly, and have achieved

worldwide name recognition for that idea and that service. There have been software delays due to an excellent design that has taken too long. Now Nelson intends to resume personal control of the operation, supervising simple software for the purpose, and to direct operations himself, opening a public-access service as soon as feasible.

WHY SHOULD JAPANESE PARTNERS INVEST IN PAX INTERNATIONAL?

Establishes participation in general profits
Clarifies Nelson's permanent commitment
Supplies capital needed for light current development
TIME TO PROFIT: FOUR YEARS?

INVESTMENT OF JAPANESE PARTNERS IN "PAX NIHON"
Near 50% participation by Japanese firms
Substantially Japanese management

Bizplan memos 93.1.29 Appendix A REF

HISTORY & PRESENT SITUATION

1960-79

Nelson alone & with indiv collaboratorss

1979-92 Team of Gregory, Miller et al.

1981 design by Gregory, Miller et al.

Gregory continued work unfunded for six years

1988-91

Autodesk funding

Rough completion of 1981 design

Redesign begins by Miller, et al. of ideal server software

Excellent design but continuing delays

1992

Autodesk ends Xanadu funding

January 1993

Nelson separates from XOC

Nelson resumes control of publishing enterprise.

PRESENT SITUATION

Nelson owns Xanadu trademarks:

"Xanadu"

"flaming X" symbol

PAX

"Xanamail"

and others.

Nelson is unrestricted in ability to start royalty publishing

Nelson is preparing to create publishing system without XOC software

XOC is seeking financing to complete software, now estimated at one to two years to product

DESIGN & IMPLEMENTATION HISTORY

1960: basic idea (90% unchanged since)

1965 design (published in Nelson's first paper)
1966-7: supported by Harcourt, Brace & World Publishers
1967: name "Xanadu" adopted
1972 system (with collaborators Ridgway & Daniels)
1974 system design (with collaborator Barus)
1979: new group:
Gregory, Greene, Miller, Hill, King
1981-8: design and implementation of the 1988 system
Current design team: Miller, Tribble, Pandya
1988-current:
sponsored by Autodesk, Inc.
design and continuing implementation of 1993 system

BUSINESS HISTORY
1960-6: OWNED BY NELSON
1966-7: OWNED BY HARCOURT
1967-83: OWNED BY NELSON
1983-8: Division into XOC and PAX (exclusive rights pub.syst)
1988-92: Division into XOC and PAX same under Autodesk
1992: PAX may lose exclusive rights to publishing

BIZPLAN MENGE 93.1.29 APPENDIX B Ref

APPENDIX ON THE SERVICE

A COMPLETE BROAD-SCALE LITERARY SYSTEM FOR COMPLETE ELECTRONIC LITERATURE

#

A SYSTEM FOR THE REPRESENTATION, STORAGE AND DELIVERY OF CONNECTED DATA

XANADU IS: STABLE LINKAGES

that hold, clinging to the bytes, despite changes of the things being linked

STABLE LINKAGE STRUCTURES

REPRESENTATION OF CONNECTED DATA

Unusual new methods

Extends and generalizes the storage of documents and media of any kind

STORAGE OF CONNECTED DATA

Any mass storage hardware

Connections cut across storage

DELIVERY OF CONNECTED DATA

Will be accessible from front-end viewing and manipulation programs running on any computer

#

A SERVER THAT MAKES A NETWORK CONNECT UP FOR A NETWORK

THE REPOSITORY AND TRANSPORT LAYER FOR A PUBLISHING NETWORK

Made up of server machines uniting to

a common address space
a common system of **content** linkage
distributing transparently across a broad network
All hardware and transport layers create one virtual net
the parts of documents may be distributed
Connections distribute across the net
links may be distributed across the nte
transclusions may be distributed across the net
Transclusion across the entire address space

PLATFORM-INDEPENDENT, may run on any computer

#

A GRAND ADDRESS SPACE
A NETWORK ADDRESS SPACE
A DOCUMENT ADDRESS SPACE
Indefinitely large
singular
stable
Will hold all kinds of data
Will keep track of all versions of changing documents (while maintaining all the connections among them)
Everything available all the time if published
Best compared to a single landscape viewable through many windows

#

A SYSTEM OF PACKAGING AND OWNERSHIP

Every document has an owner
Every link has an owner
(Someone else may publish a variant by transclusion)

All data is divided into documents, and so each byte and each connection has a home document and an owner. Anyone may publish connections to any other document;

#

A ROYALTY COLLECTION METHOD

Simple
Fair
Royalty across the entire transport space
Stable royalty on what is sent
Transclusion and royalty across the network--

The publisher of the data, who must own it or have a legal arrangement with its owner, specifies the amount of royalty to be paid per byte of that data.

#

DELIVERS ALL MEDIA, SINGLY OR COMBINED--

marked from outside

(pic)

Text
Photographs
Drawings
Diagrams
Interactive Diagrams
Data
Visualization Programs
Video
Digitized motion pictures
Audio (speech)
Audio (music)
Audio (high fidelity music),
and data structures yet to be discovered/invented;
AND ALL COMBINATIONS THEREOF.
MULTIPLE STANDARDS, ALL DATA FORMATS

Unique multi-data standard
Text in own formt, as well as in others
QuickTime
ISO hypertext and hypermedia standards (based on SGML)

PICT, PICS, GIF, TIF, FLI, Targa, SGML, PostScript, QuickTIme,
Microsoft Video for Windows
Avid Open Media Forum standard

#

#

A NEW PUBLISHING RELATIONSHIP: TRANSCLUSION

probably the strongest feature of this service is what we call "transclusion," which means that any author is free to use the materials in any published document, through a special pointer in the new document, directing that specific data to be bought directly from its publisher.

By the transclusion mechanism, moreover, we will liberate people to use materials created by others far more widely than was ever before possible. We expect this to create a new renaissance of literature and the written word.

PUBLISHING AND TRANSCLUSION

PUBLISHING

Publishing means making something public

In most societies it is a legal former act, with possible dangers

Xanadu publishing extends and generalizes paper publishing

transclusion in big Xanadu

anything can quote anything else without special permission

the quotation is really a pointer, meaning "buy this from the original publisher"

Cleans up copyright

all sorts of re-use

No red tape for variant re-uses (TCL)

(permission is granted for all transclusion in the original publishing contract)

#

LITTLE AND BIG XANADU

LITTLE XANADU: Maintaining local complex data

linkage and transclusion in little Xanadu

linkage in little Xanadu

representing true structure of nonsequential relationships

transclusion in little Xanadu

showing all the uses of your personal or corporate files by transclusion

BIG XANADU: publishing with royalty

linkage and transclusion in big Xanadu:

Representing true structure of literary connex

(permission already granted)

Royalty

#

#

#

MANY HUMAN & BUSINESS ROLES

ALL PROVIDERS OF SERVICE,

ALL PUBLISHERS,

ALL READERS,

ALL COMMUNICATION COMPANIES,

other roles already known (like literary agents)

other roles not yet known

(like endorsement reviewers)

A CONTRACTUAL SYSTEM UNDER THE LAW

BUILDS ON AND TRANSPOSES FAMILIAR PUBLISHING ROLES

Reader

Publisher
Publisher gets royalty
Author
Makes deal with Publisher, as before

NO PUBLISHING HIERARCHY

NO DISTINCTION BETWEEN CONSUMERS AND PRODUCERS

All users are equivalent

All may publish

FRONT ENDS-- THE DIFFERENT WINDOWS

FRONT ENDS-- THE DIFFERENT WINDOWS

BIZPLAN MERGE v 93.1.29 APPENDIX C REF

INVESTMENT IN "SILVERSTAND SHIBUYA"
The first McDonald's-like Silverstand
a fashionable district
OBJECTIVES

Prototype for computer services
Goodwill for company
Training of Silverstand Hypercorps
Profit Center
Fashionable and impressive showroom
Prototype of Silverstand
Clarify the mission of Xanadu to the non-computer public
Prototype for scenery and costumes
Prototype for training
Teach beginners how to use
Sell software
(However, will not have the architectural design for free-standing model)
High-rent district for public relations
HIGH INITIAL COST

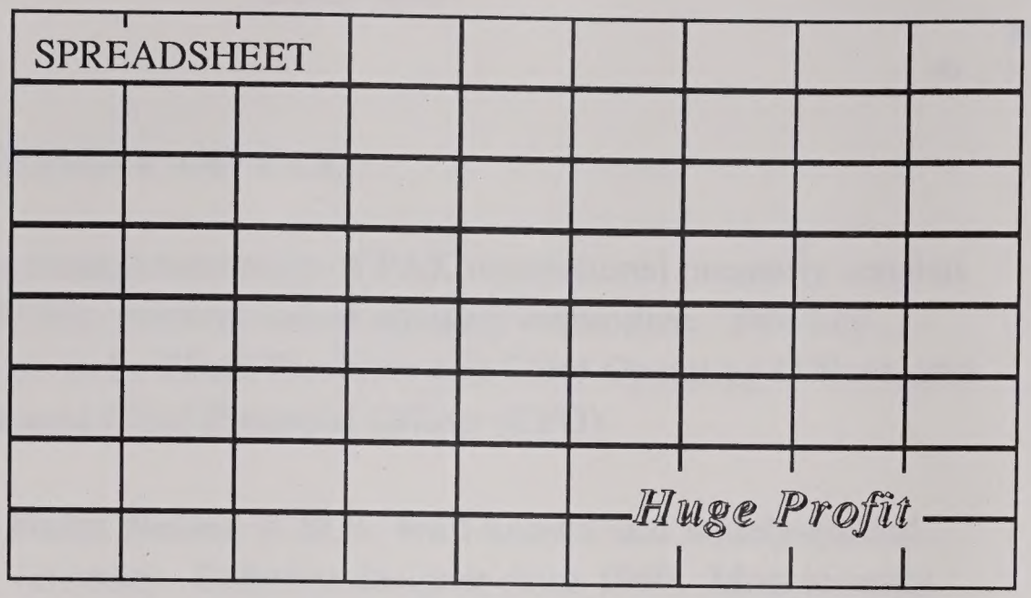
NELSON TO BE DIRECTLY INVOLVED

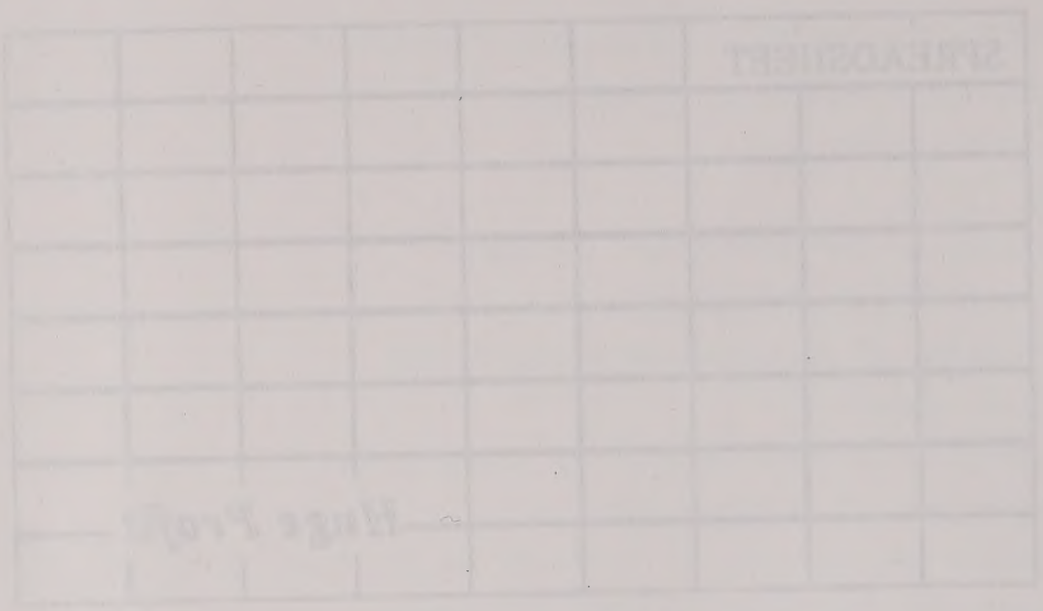
They put up the money
I do the design and the training
I WORK IN THE STORE, as a model for owner-operators
(Note excellent public relations from my working in the store)

MILESTONES

Architectural plan
Costume design
Functioning Xanadu network
Down payment of lease
Preliminary installation of functioning system
Construction and remodelling
First group training complete
OPEN STORE

PROFITABILITY ESTIMATE: AFTER SIX MONTHS


SPREADSHEET
Huge Profit



BIZPLAN MERGE 93.1.29 Appendix D REF

MANAGEMENT OF PAX

The management team of PAX international presently consists of two full-time persons and an advisory committee. Two key positions are to be filled: President and Chief Operating Officer, and an experienced Chief Financial Officer (CFO).

Theodor Holm Nelson (CEO): Well-known and widely-quoted computer visionary. Software designer since 1960. Most recently Distinguished Fellow at Autodesk, Inc. Formerly consultant to CBS Labs, IBM and other firms; former editor of *Creative Computing* magazine, chief office software designer for Datapoint Corporation. Has held teaching positions at five universities and colleges in a wide variety of departments, most recently Visiting Professor of Information Science, University of Strathclyde. Coined numerous terms now widely used, most notably *hypertext*, *hypermedia*, *electronic* (and computer, etc.) *visualization*, *image synthesis* and *compound document*. Three books, approximately fifty articles, probably one hundred conference talks. (See Appendix ___ for Resume.)

Marlene J. Mallicoat (Administrator and acting Chief Financial Officer). Six years as a Systems Engineer for IBM; independent software designer for the past twenty years, and a consultant in various areas of the computer industry. (See Appendix ___ for Resume.)

Ann Hardy (network business consultant). Ms. Hardy has over two decades of experience in computer networking and security, as well as extensive business experience. She was vice-president of TymShare, Inc., operating profitable computer network services worldwide. She later co-founded KeyLogic, Inc., a company which acquired patents on the technology for secure operating systems.

Elisabeth Davenport (Evangelist). Eloquent generalist with advanced degrees in several fields. She has for the last four years promoted the Xanadu idea internationally, especially in Europe.

Roger Gregory (technical consultant). Mathematician and high-level programmer. The founder of XOC, he has served with it since 1979, both as CEO and on the technical staff.

John Larson (networking scientist and communications consultant). Principal networking coordinator for Xerox Palo Alto Research Center for the last four years, managing both internal and external connections for the entire facility. He is credited with having saved Xerox PARC from the Internet virus.

Mark Hellman (attorney and intellectual property counsellor) has been called "the first real computer lawyer," since he worked as a systems programmer at Xerox PARC before going to law school. He is a partner in a major Chicago law firm.

BIZPLAN MERGE 93.1.29 Apndx E REF

FIVE-YEAR PLAN for PROJECT XANADU INTERNATIONAL

Year 1:
Design of "Xanadu Light" (Xu-1)
Strategic partnerships
Find preliminary licensees in USA
Promotion of the service to vendors
Promotion of the service to publishers
Promotion of the service to customers
Promotion of the interface to software developers

Year 2:
Deployment of Xu-1 dial-in service in California
First demonstration center (SilverStand) in California
More licensees in USA
Promotion of the service to vendors
Promotion of the service to publishers
Promotion of the service to customers
Promotion of the interface to software developers

Year 3:
Continued deployment of Xu-1 dial-in service in California
Additional SilverStands in California
First deployment of xu-1 dial-in service elsewhere in USA
Licensing of two additional countries
Promotion of the service to vendors
Promotion of the service to publishers
Promotion of the service to customers
Promotion of the interface to software developers
Testing of XOC Software (Xu-2)

Year 4:
Licensing of four more countries
Deployment of Xu-2 Software
Continued deployment of Xu-1 dial-in service in California
Additional SilverStands in California
First deployment of xu-1 dial-in service elsewhere in USA
Licensing of two additional countries

Promotion of the service to vendors
Promotion of the service to publishers
Promotion of the service to customers
Promotion of the interface to software developers
Testing of XOC Software (Xu-2)
Year 5:
Licensing of four more countries
Deployment of Xu-2 Software
Continued deployment of Xu-1 dial-in service in California
Additional SilverStands in California
First deployment of xu-1 dial-in service elsewhere in USA
Promotion of the service to vendors
Promotion of the service to publishers
Promotion of the service to customers
Promotion of the interface to software developers
Testing of XOC Software (Xu-2)

FIVE-YEAR PLAN FOR PAX INTERNATIONAL

February 1993

Crash program to redesign simpler publishing system.

June 1993

preliminary design for first-stage Xanadu publishing system using conventional databases (Xu-1).

4q 1993

Evangelize privately for Xu-1 front-end software.
Country 1 (Northern California):
Begin operation of licensed publishing system through small time-sharing vendors.
No publicity.
testing of first-stage Xanadu publishing system by small time-sharing service (no publicity).

1q 1994

Announce pubic availability of Xanadu services
Evangelize publicly for Xu-1 front-end software.
Promote continued expansion in Country 1
conventional suppliers
new franchisees providing only Xanadu service

2q 1994

Begin licensed Xanadu service in Country 2
XOC software become available. ?

3q 1994

Thorough testing of XOC software.
Evangelizing for XOC front-end software.

4q 1994

2q 1995

Replacement of Xu-1 software by XOC software at some vendor sites.
Approach larger vendors (such as CompuServe) after a year of successful operation

BIZPLAN MERGE 93.1.29 Appendix F REF

FIVE-YEAR PLAN for PROJECT XANADU JAPAN

Year 1:
Strategic partnerships in Japan
Year 2:
Deployment of Xu-1 dial-in servers in Japan
First demonstration center (SilverStand™)
Promotion of the service to customers
Promotion of the service to publishers
Promotion of the service to vendors
Promotion of the interface to software developers
Preliminary licensing
Year 3:
Additional deployment of Xu-1 dial-in servers
Additional SilverStands
Promotion of the service to customers
Promotion of the service to publishers
Promotion of the service to vendors
Promotion of the interface to software developers
Additional licensing
Year 4:
Additional deployment of Xu-1 dial-in servers
Additional SilverStands
Promotion of the service to customers
Promotion of the service to publishers
Promotion of the service to vendors
Promotion of the interface to software developers
Additional licensing
Year 5:
Additional deployment of Xu-1 dial-in servers
Additional SilverStands
Promotion of the service to customers
Promotion of the service to publishers

Promotion of the service to vendors
Promotion of the interface to software developers
Additional licensing

Make it 4 or 5 yrs?

*** INCOME STATEMENT, PROJECT XANADU JAPAN ***					
	Year 1	Year 2	Year 3	Year 4	Year 5
REVENUE:					
Vendor license fees	$0	$10,000	$50,000	$75,000	$100,000
Delivery of bytes	$0	$2,000	$20,000	$200,000	$2,000,000
(20% of vendors' revenue)					
Connect hours	$0	$3,000	$4,000	$10,000	$20,000
(20% of vendors' revenue)					
New Account fees	$0	$200	$2,000	$3,000	$5,000
(20% of vendors' revenue)					
Publishing registration fees	$0	$2,000	$4,000	$6,000	$8,000
(20% of vendors' revenue)					
Publishing storage fees	$0	$4,000	$8,000	$12,000	$16,000
(20% of vendors' revenue)					
Software sales, Silver Stands	$0	$500	$1,000	$1,500	$2,000
(5% of vendors' revenue)					
Total Revenue	$0	$21,700	$88,000	$307,500	$2,151,000
OPERATING EXPENSES:					
Sales & Marketing	$200,000	$200,000	$200,000	$200,000	$200,000
R & D/Consulting	$100,000	$100,000	$100,000	$100,000	$100,000
General & Administrative	$200,000	$200,000	$200,000	$200,000	$200,000
License fees to PAX	$0	$4,340	$17,600	$61,500	$430,200
Total Operating Expenses	$500,000	$504,340	$517,600	$561,500	$930,200
TOTAL INCOME FROM OPERATIONS	($500,000)	($482,640)	($429,600)	($254,000)	$1,220,800

*** INCOME STATEMENT, PROJECT XANADU JAPAN ***					
	Year 1	Year 2	Year 3	Year 4	Year 5
REVENUE:					
Vendor license fees	$0	$10,000	$50,000	$75,000	$100,000
Delivery of bytes	$0	$2,000	$20,000	$200,000	$2,000,000
(20% of vendors' revenue)					
Connect hours	$0	$3,000	$4,000	$10,000	$20,000
(20% of vendors' revenue)					
New Account fees	$0	$200	$2,000	$3,000	$5,000
(20% of vendors' revenue)					
Publishing registration fees	$0	$2,000	$4,000	$6,000	$8,000
(20% of vendors' revenue)					
Publishing storage fees	$0	$4,000	$8,000	$12,000	$16,000
(20% of vendors' revenue)					
Software sales, Silver Stands	$0	$500	$1,000	$1,500	$2,000
(5% of vendors' revenue)					
Total Revenue	$0	$21,700	$88,000	$307,500	$2,151,000
OPERATING EXPENSES:					
Sales & Marketing	$200,000	$200,000	$200,000	$200,000	$200,000
R & D/Consulting	$100,000	$100,000	$100,000	$100,000	$100,000
General & Administrative	$200,000	$200,000	$200,000	$200,000	$200,000
License fees to PAX	$0	$4,340	$17,600	$61,500	$430,200
Total Operating Expenses	$500,000	$504,340	$517,600	$561,500	$930,200
TOTAL INCOME FROM OPERATIONS	($500,000)	($482,640)	($429,600)	($254,000)	$1,220,800

KINOKUNIYA JAPAN INCOME PROJECT-XJ

*** INCOME STATEMENT, PROJECT XANADU JAPAN ***					
	Year 1	Year 2	Year 3	Year 4	Year 5
REVENUE:					
Vendor license fees	$0	$10,000	$20,000	$60,000	$210,000
Delivery of bytes	$0	$120,000	$360,000	$1,500,000	$6,000,000
(See Note A)					
Connect hours	$0	$40,000	$120,000	$500,000	$2,000,000
(See Note A)					
New Account fees	$0	$6,000	$12,000	$57,000	$225,000
(See Note A)					
Publishing registration fees	$0	$2,000	$4,000	$8,000	$20,000
(See Note A)					
Publishing storage fees	$0	$4,000	$8,000	$16,000	$40,000
(See Note A)					
Software sales, Silver Stands	$0	$4,000	$8,000	$38,000	$150,000
(See Note B)					
Total Revenue	$0	$186,000	$524,000	$2,179,000	$8,645,000
OPERATING EXPENSES:					
Sales & Marketing	$200,000	$300,000	$400,000	$500,000	$600,000
R & D/Consulting	$100,000	$100,000	$100,000	$100,000	$100,000
General & Administrative	$200,000	$200,000	$200,000	$200,000	$200,000
License fees to PAX	$0	$37,200	$104,800	$435,800	$1,729,000
Total Operating Expenses	$500,000	$637,200	$804,800	$1,235,800	$2,629,000
TOTAL INCOME FROM OPERATIONS	($500,000)	($451,200)	($280,800)	$943,200	$6,016,000
NOTES:					
A: These figures represent the 20% of total vendors' revenue which goes to PXJ					
B: These figures represent the 5% of total vendors' revenue which goes to PXJ					

Hi, Honey!

Here are the assumptions for the following spreadsheet:

	Year 1	Year 2	Year 3	Year 4	Year 5
New users		2,000	4,000	19,000	75,000
Total users		2,000	6,000	25,000	100,000

Delivery of bytes + connect hours = $400/user * 20% = $80, divided into 75% ($60) for delivery and 25% ($20) for connect hours

So delivery of bytes is $60 * total users and
connect hours is $20 * total users

New account fees are $3 (20% of $15) per new user

Publishing fees were left pretty much as you had them; I just adjusted the ratios slightly to come up with your new Year 5 figures.

Software sales: $100=price of software; $20=20%; I assumed 10% of new users would buy the software at a SilverStand; so this figure is $20 * 10% of new users for each year.

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